

**Management Advisory Report: The Internal
Revenue Service Could Reduce the Number of
Business Tax Returns Destroyed Because of
Missing Information**

June 2001

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

June 21, 2001

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION
COMMISSIONER, WAGE AND INVESTMENT DIVISION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report - The Internal Revenue
Service Could Reduce the Number of Business Tax Returns
Destroyed Because of Missing Information

This report presents the results of our review to determine why many business tax returns mailed to lockbox banks were not processed even though the payments associated with those returns were processed.

In summary, we found the Internal Revenue Service (IRS) processes thousands of payments submitted with business tax returns for which the associated business tax returns are not processed. Many of these instances were the result of taxpayers omitting their names, addresses, and taxpayer identification numbers from their tax returns. Although this taxpayer identifying information was available on payment vouchers included with the tax returns, lockbox banks forwarded these tax returns to IRS centers for processing without first supplying the missing information. Without this information, the IRS centers declared the returns unprocessable and destroyed them. Subsequently, the IRS corresponded with taxpayers telling them their tax returns were lost or were never received and asking them to provide copies of their tax returns. This results in unnecessary work for the IRS and unnecessary burden on taxpayers and can result in inaccurate amounts of tax being assessed. We believe the IRS could reduce the number of business tax returns that are not processed by modifying instructions to taxpayers and lockbox banks.

Management agreed with our findings and has planned effective corrective actions. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included in Appendix IV.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have any questions or Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

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Executive Summary

During our review of the Internal Revenue Service's (IRS) computation of restricted interest on business accounts,¹ we identified a significant number of business income tax returns taxpayers sent to lockbox banks that were reportedly lost by the IRS before they could be processed. Because of the potential effect a significant number of "lost" returns could have on both the IRS and taxpayers, we immediately initiated a limited scope review in this area. The objective of this review was to determine why a significant number of tax returns mailed by taxpayers to lockbox banks were not processed, even though the payments associated with the tax returns were processed.

Results

During the IRS' 2000 and 2001 returns processing seasons, it processed thousands of payments submitted with business tax returns for which the associated business tax returns were not processed. Although we could not determine the volumes nationwide, we did find that many of these "lost" tax returns were actually returns that were unprocessable because information necessary to process them was missing.² The IRS could reduce the number of these unprocessable tax returns by clarifying instructions to taxpayers, providing additional processing instructions to lockbox banks, and performing additional research to secure names, addresses, and taxpayer identification numbers on certain returns submitted without this information.

Taxpayer Misunderstanding and Incomplete Processing Instructions for Lockbox Banks and Internal Revenue Service Employees Resulted in Unprocessable Tax Returns

The following three problems resulted in the IRS classifying tax returns as unprocessable and destroying them.

- Taxpayers did not provide business names, addresses, and taxpayer identification numbers where required on their tax returns. Employer's Quarterly Federal Tax Returns (Form 941) and Employer's Annual Federal Unemployment Tax Returns (Forms 940 and 940-EZ) and their associated payment vouchers are designed in a

¹ Audit No. 200030034 – Use of Restricted Interest on Taxpayer Accounts.

² Other returns thought to be "lost" might not actually have been submitted by taxpayers, even though they submitted payments and payment vouchers.

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manner that could confuse taxpayers regarding where to enter their names and other identifying information.

- IRS instructions do not require lockbox banks to record identifying information omitted by taxpayers on tax returns or to provide information to help the IRS record it. Processing procedures followed by lockbox banks are to detach payment vouchers for processing by the bank and to forward the associated tax returns to the IRS center for processing by the IRS. As a result, if taxpayers entered their names on payment vouchers but not on their tax returns, the returns were sent to the IRS without the information necessary to process them.
- The IRS did not use state information to obtain taxpayers' names, addresses, and taxpayer identification numbers. Form 940-EZ instructions request taxpayers to provide both the state where they pay unemployment contributions and the state reporting numbers shown on their state unemployment tax returns. Although the state tax agencies have the taxpayer identifying information that would allow the IRS to process Forms 940-EZ, IRS employees were not required to contact the state tax agencies. We telephoned the state tax agencies listed on four tax returns and in three instances were able to get the taxpayers' names and federal taxpayer identification numbers. The fourth state would provide us the information if our request was submitted in writing.

These problems resulted in unnecessary work for the IRS and burden on taxpayers, and can result in inaccurate amounts of tax being assessed. Employees at the IRS centers must perform research on tax returns sent from lockbox banks with no names, addresses, and taxpayer identification numbers. This additional research is usually unsuccessful. As a result, the tax returns are not processable and the IRS destroys them. The IRS subsequently contacts the taxpayers to advise them their tax returns were "lost" or were never received, and to ask them to send copies of their returns.

Summary of Recommendations

The Director, Tax Forms and Publications, Wage and Investment (W&I) Division, should modify tax forms and instructions to ensure that taxpayers understand that their names, addresses, and taxpayer identification numbers are required on both their tax forms and payment vouchers. The Director, Submission Processing, W&I Division, should ensure that lockbox banks identify when taxpayer identifying information is missing from tax returns and either enter the information from the payment voucher or copy the voucher and send it to the IRS with the tax return. The Director, Customer Account Services, Small Business/Self-Employed Division, should ensure that IRS employees contact state tax agencies when applicable to obtain missing taxpayer identifying information.

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Management's Response: The IRS will make changes to Forms 940, 940-EZ and 941 and the related instructions to ensure taxpayers understand their names, addresses, and taxpayer identification numbers are required on the tax returns themselves even if the taxpayers have completed the associated payment vouchers. The IRS will coordinate with the Financial Management Service to add procedures for the lockbox banks to copy payment vouchers and send these to IRS with returns which are missing taxpayer identifying information.

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Objective and Scope

The objective of this review was to determine why a significant number of tax returns mailed by taxpayers to lockbox banks were not processed, even though the payments associated with the tax returns were processed.

The objective of this review was to determine why a significant number of tax returns mailed by taxpayers to lockbox banks were not processed, even though the payments associated with the tax returns were processed.

We discovered this issue during our review of the Internal Revenue Service's (IRS) computation of restricted interest on business accounts.¹ We conducted our review during March 2001 at the Ogden IRS Submission Processing Center. The scope of our review was limited because the issue was not directly related to any of our ongoing audits, and we felt it was necessary to quickly communicate our findings to the IRS. The review was conducted in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*.

During our review of 50 tax accounts nationwide for which the IRS had restricted the calculation of interest during Calendar Year 1999, we identified 25 taxpayers:

- Who had sent a payment to the IRS along with a business tax return.
- To whom the IRS had then written requesting the taxpayer provide a copy of the tax return because the IRS had lost the return or had no record of receiving it.

We then:

- Reviewed the 25 tax accounts referred to above.
- Obtained data to help determine the volumes of returns that are "lost" by the IRS.

¹ Audit No. 200030034 – Use of Restricted Interest on Taxpayer Accounts.

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- Reviewed lockbox bank and IRS employees' instructions and procedures.
- Worked with the Lockbox Coordinator in the Ogden IRS Submission Processing Center to determine the controls maintained over tax returns shipped from lockbox banks to the IRS centers and the procedures followed by lockbox employees when taxpayers do not enter names, addresses and taxpayer identification numbers in the appropriate places on their tax returns.
- Reviewed business tax returns received in the Ogden IRS Submission Processing Center from the lockbox bank with no entry in the taxpayers' name and address fields.

Details of our review objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Background

During an audit of the IRS' computation of restricted interest, we found that the IRS had reportedly lost a significant number of tax returns.

During our review of the IRS' computation of restricted interest on business accounts, we selected a sample of 50 taxpayer accounts at random from the over 12,000 accounts that had a restricted interest transaction for zero dollars input to the account during Calendar Year 1999. This often occurs when the IRS wants to suppress all assessment of interest on an account.

Half of the accounts in our sample had interest restricted because the IRS had reportedly "lost" the taxpayer's return. In each case, the payment was apparently received with the tax return at a lockbox bank and had posted to the taxpayer's account, but the related return had not posted.

Our sample of 50 cases was not statistically valid, but if it was representative of all cases nationwide with restricted interest transactions for zero dollars, it would mean that over 6,000 business returns were "lost" by the

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IRS. The actual number, however, could be considerably larger. Because the IRS requests taxpayers to provide copies of their tax returns when returns are not processed but payments have posted to the taxpayers' accounts, many taxpayers would provide copies. The cases in our sample were only those for which taxpayers had not provided the IRS with replacement copies of their original tax returns before an IRS employee worked the case.

Because of the potential effect a significant number of "lost" returns could have on both the IRS and taxpayers, we immediately initiated a limited scope review in this area.

Results

The IRS could reduce the number of unprocessable tax returns by clarifying instructions to taxpayers, providing additional processing instructions to lockbox banks, and performing additional research.

During the IRS' 2000 and 2001 returns processing seasons, it processed thousands² of payments submitted with business tax returns for which the associated business tax return was not processed. Although we could not determine the volumes nationwide, we did find that many of these "lost" tax returns were actually returns that were unprocessable because information necessary to process them was missing.³ The IRS could reduce the number of these unprocessable tax returns by clarifying instructions to taxpayers, providing additional

² Officials in the Accounts Maintenance function at the IRS' Ogden and Cincinnati Submission Processing Centers informed us these 2 centers worked over 69,000 cases during an approximately 12-month period where a payment for a business tax return had been processed but the associated tax return had not been processed. Most of these payments were submitted with a business tax return. The officials did not have data regarding the specific tax forms that were missing or whether the associated payments had been processed through a lockbox bank. These centers are 2 of 10 Submission Processing Centers.

³ Other returns thought to be "lost" might never actually have been submitted by taxpayers, even though they submitted payments and payment vouchers.

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processing instructions to lockbox banks, and performing additional research to secure names, addresses, and taxpayer identification numbers on certain returns that are filed without this information.

Taxpayer Misunderstanding and Incomplete Processing Instructions for Lockbox Banks and Internal Revenue Service Employees Resulted in Unprocessable Tax Returns

The lost tax returns in our sample of 50 restricted interest cases were Employer's Quarterly Federal Tax Returns (Form 941) or Employer's Annual Federal Unemployment Tax Returns (Forms 940 and 940-EZ). In each case, the payment associated with the lost return had been processed by a lockbox bank. Because of this, we researched this issue and held discussions with the Ogden IRS Submission Processing Center's Lockbox Coordinator. We identified the following three problems that resulted in tax returns being classified as unprocessable.

Taxpayers did not provide business names, addresses, and taxpayer identification numbers where required on their tax returns

Forms 941, 940, and 940-EZ contain a detachable payment voucher for taxpayers to submit with their payments. Some of these forms and vouchers come to taxpayers with their names, addresses, and taxpayer identification numbers preprinted. However, for those forms without preprinted information, taxpayers are expected to provide their business names (individual names for sole proprietors), addresses, and taxpayer identification numbers on both the tax returns and vouchers. Taxpayers are instructed to send their tax forms, vouchers, and payments to the address of the appropriate lockbox bank.

In each of the cases for which we could associate a payment voucher with a tax return containing no

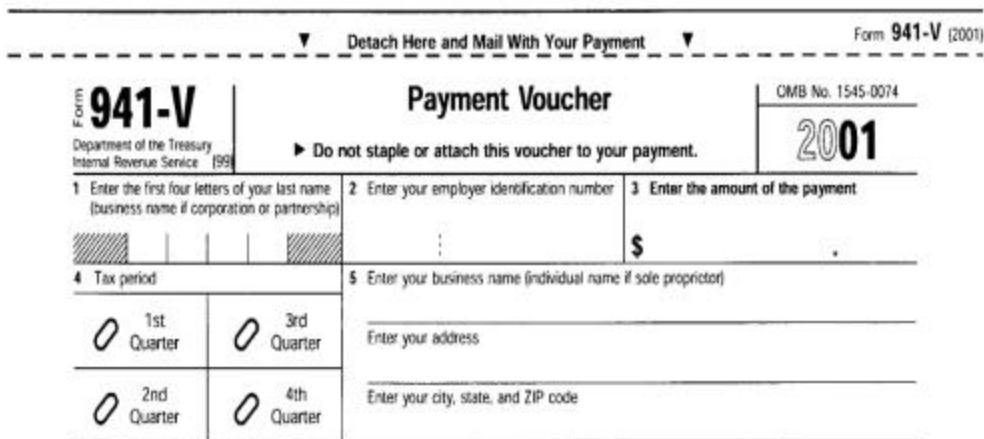
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taxpayer name, address, and taxpayer identification number, we found that the taxpayer filled in the identifying information on the payment voucher or used the preprinted voucher. However, the taxpayer then did not enter the same information at the top of his/her tax return.

Forms 941, 940, and 940-EZ and their associated payment vouchers are designed in a manner that could confuse some taxpayers. For example:

- The payment vouchers for each of these forms contain individual boxes for taxpayer identifying information with blank lines on which the information is to be entered and specific instructions for each line, such as “Enter your business name” or “Enter your address” (see Exhibit 1). Although the tax forms themselves contain spaces for taxpayer identifying data, they do not contain lines on which to enter the data, and they do not contain the same specific instructions as the vouchers (see Exhibit 2).

Exhibit 1



Form 941-V (2001) Payment Voucher. The form is designed for taxpayers to provide identifying information when making a payment. It includes fields for the taxpayer's name, employer identification number, payment amount, tax period, business name, address, and city/state/ZIP code. The form is titled "Form 941-V" and "Payment Voucher". It also includes the text "Department of the Treasury Internal Revenue Service [99]" and "OMB No. 1545-0074". The year "2001" is prominently displayed. A dashed line at the top indicates where to "Detach Here and Mail With Your Payment". A note states "Do not staple or attach this voucher to your payment."

Form 941-V		Payment Voucher		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service [99]		Do not staple or attach this voucher to your payment.		2001
1 Enter the first four letters of your last name (business name if corporation or partnership)		2 Enter your employer identification number	3 Enter the amount of the payment	
<input type="text"/>		<input type="text"/>	<input type="text"/> \$ <input type="text"/>	
4 Tax period		5 Enter your business name (individual name if sole proprietor)		
<input type="radio"/> 1st Quarter	<input type="radio"/> 3rd Quarter	Enter your address		
<input type="radio"/> 2nd Quarter	<input type="radio"/> 4th Quarter	Enter your city, state, and ZIP code		

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Exhibit 2

Form 941
(Rev. January 2001)
Department of the Treasury
Internal Revenue Service

Employer's Quarterly Federal Tax Return
▶ See separate instructions for information on completing this return.
Please type or print.

Enter state code for state in which deposits were made **only** if different from state in address to the right ▶ ☐ (see page 2 of instructions).

Name (as distinguished from trade name) _____ Date quarter ended _____

Trade name, if any _____ Employer identification number _____

Address (number and street) _____ City, state, and ZIP code _____

OMB No. 1545-0029

T _____
FF _____
FD _____
FP _____
I _____
T _____

If address is different from prior return, check here ▶ ☐ **IRS Use**

If you do not have to file returns in the future, check here ▶ ☐ and enter date final wages paid ▶ _____

If you are a seasonal employer, see **Seasonal employers** on page 1 of the instructions and check here ▶ ☐

1	Number of employees in the pay period that includes March 12th ▶ 1				
2	Total wages and tips, plus other compensation				
3	Total income tax withheld from wages, tips, and sick pay				
4	Adjustment of withheld income tax for preceding quarters of calendar year				

- The space on Forms 941, 940, and 940-EZ for taxpayer identifying information contains framing for an IRS preprinted label (see Exhibit 2 above). Taxpayers without preprinted labels may incorrectly leave the space blank.
- The space for taxpayer identifying information is included with other lines and boxes that are for IRS use rather than for taxpayer entries. On Form 941, the words “IRS Use” are included in this large area (i.e., the upper half of the form). Forms 940 and 940-EZ have separate instructions telling taxpayers to enter their identifying information on the form if they are not using preaddressed forms. However, some taxpayers may not refer to the separate instructions for this space. In addition, the separate instructions for Form 941 discuss only preprinted information, which can reinforce the misconception that taxpayers do not need to enter data in that space.

Some taxpayers may have assumed the name and address sections of the tax forms were for IRS use only.

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IRS instructions do not require lockbox banks to record information omitted by taxpayers on tax returns or to provide information to help the IRS record it

Processing procedures followed by lockbox banks are to detach the payment voucher for processing by the bank and to forward the associated tax return to the IRS center for processing by the IRS. The instructions the IRS provided to the banks do not require the banks to record omitted identifying information on the tax return or to provide information to help the IRS record it if the taxpayer provides a name, address, and taxpayer identification number on the voucher. As a result, such tax returns were sent to the IRS without the information necessary to process them and assess the tax.

Employees at the IRS centers must perform research on these tax returns to try and determine the identity of the taxpayers submitting the returns. We were informed that this additional research was almost always unsuccessful.

The IRS did not use state information to obtain taxpayers' names, addresses, and taxpayer identification numbers

The IRS could have obtained information necessary to process some tax returns from state agencies.

Form 940-EZ instructions request taxpayers to provide both the state where they pay unemployment contributions and the state reporting numbers shown on their state unemployment tax returns. Although the state tax agencies have the taxpayer identifying information that would allow the IRS to process Forms 940-EZ, IRS employees were not required to contact the state tax agencies.

We reviewed six Forms 940-EZ sent to the IRS from a lockbox bank with no name, address, and taxpayer identification number. Taxpayers had provided the requested state information on four of these six tax returns.

We telephoned the state tax agencies listed for these four returns and in three instances were able to get the

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taxpayers' names and federal taxpayer identification numbers. The fourth state would provide us the information if our request was submitted in writing.

Without performing this type of research, the IRS generally cannot determine the identity of the taxpayers submitting these tax returns.

These problems resulted in unnecessary work for the IRS and burden on taxpayers, and can result in inaccurate amounts of tax being assessed

As mentioned earlier, employees at the IRS centers must perform research on tax returns sent from lockbox banks with no names, addresses, and taxpayer identification numbers. This additional research is usually unsuccessful.

Without the names and taxpayer identification numbers of taxpayers who submit tax returns, the IRS cannot process the returns. The returns are labeled "unprocessable" and are destroyed. However, in the instances referred to in this report, the taxpayers had submitted payments that were processed and posted to the taxpayers' accounts.

The IRS asks taxpayers to provide copies of tax returns that it received but never processed.

When a payment with a tax return posts to a taxpayer's account, the IRS' computer system is programmed to ensure that the associated tax return posts also. If after 26 weeks the return has not posted to the taxpayer's account, an IRS employee will attempt to resolve the situation. If the original payment was processed at a lockbox bank, the IRS employee is instructed to send a letter asking the taxpayer to provide the IRS a copy of his/her tax return. The IRS offers no compensation to the taxpayer, even though when the situation is reversed, the IRS charges taxpayers \$23 to provide copies of tax returns.

Taxpayers who do not provide requested copies will get additional requests every 26 weeks until the statutory period for assessing the tax for the tax period in question is about to expire. At that time, the IRS will send a final letter to the taxpayer asking for a copy of the taxpayer's

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return.⁴ If the taxpayer does not respond, the IRS will make an assessment to the taxpayer's account for the exact amount of the credits on the account. Taking this step assumes that the taxpayer paid his/her account in full. However, because the IRS does not have a copy of the tax return, it cannot be sure that the taxpayer did pay the account in full.

Recommendations

1. The Director, Tax Forms and Publications, Wage and Investment (W&I) Division, should make necessary modifications to tax forms and instructions to ensure taxpayers understand that their names, addresses, and taxpayer identification numbers are required on both their tax forms and payment vouchers. Designing the taxpayer identity section of the tax returns similar to those on the payment vouchers may help. Separating those sections that are for IRS use only from those requiring taxpayer input may also help.

Management's Response: The Director, Tax Forms and Publications, will take the following actions:

- Add an instruction to the left of the entity area on the 2001 Forms 940 and 940-EZ to direct the taxpayer to complete the required information.
- Add an instruction above the entity section on the 2001 (4th quarter) Form 941 to direct the taxpayer to complete the required information.
- Edit the instructions for the entity areas of the 2001 Forms 940 and 940-EZ and the 2001 (4th quarter) Form 941 to remind filers of the requirements to enter their entity information on the return itself even if they have completed the payment voucher.

⁴ In some instances, the letter sent to the taxpayer stated the IRS had lost the taxpayer's return, and in other instances the letter stated that the IRS had no record of receiving the taxpayer's return.

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2. The Director, Submission Processing, W&I Division, should ensure that lockbox banks are provided clear instructions to review taxpayer identifying information on tax returns before separating the returns and payment vouchers. If no information is entered on tax returns, the lockbox bank should enter the information or attach a copy of the voucher to the tax return so the IRS can enter the information.

Management's Response: IRS management will coordinate with the Financial Management Service to add procedures for the lockbox banks to copy payment vouchers and send these to IRS with returns which are missing taxpayer identifying information.

3. The Director, Customer Account Services, Small Business/Self-Employed Division, should ensure that IRS employees contact state tax agencies when applicable to obtain missing taxpayer identifying information necessary to process Forms 940-EZ.

Management's Response: IRS management believes that pursuing Recommendation 2 will eliminate the need for contacting state agencies.

Office of Audit Comment: We concur that if revised procedures for lockbox banks are effectively implemented, the need to contact state agencies should be eliminated.

Conclusion

Taking the corrective actions recommended in this report could reduce the number of unprocessable tax returns and, therefore, the adverse effects on the IRS and taxpayers.

The IRS processes thousands of payments submitted with business tax returns for which the associated business tax returns are not processed. This results in unnecessary work for the IRS and burden on taxpayers and can result in inaccurate amounts of tax being assessed. Taking the corrective actions recommended in

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this report could reduce the number of unprocessable tax returns and, therefore, the adverse effects on the IRS and taxpayers.

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Appendix I

Detailed Objective, Scope, and Methodology

The objective of this review was to determine why a significant number of tax returns mailed by taxpayers to lockbox banks were not processed, even though the payments associated with the tax returns were processed.

During our review of 50 tax accounts nationwide for which the Internal Revenue Service (IRS) had restricted the calculation of interest during Calendar Year 1999,¹ we identified 25 taxpayers:

- Who had sent a payment to the IRS along with a business tax return.
- To whom the IRS had then written requesting the taxpayer provide a copy of the tax return because the IRS had lost the return or had no record of receiving it.

We began a review of this issue; to accomplish our objective, we:

- I. Reviewed the tax accounts and documentation prepared by IRS employees who attempted to locate or obtain copies of tax returns relating to the 25 cases referred to above to identify any trends or similar characteristics relating to the “lost” tax returns.
- II. Obtained data from personnel in the Accounts Maintenance Units in the Ogden and Cincinnati IRS Submission Processing Centers to help determine the volumes of returns that are “lost” by the IRS. The time period used for this data was March 2000 to February 2001.
- III. Reviewed the Internal Revenue Manual to determine the procedures used by IRS personnel when working cases where payments submitted with returns post to taxpayers’ accounts, but the information from the tax returns does not post.
- IV. Worked with the Lockbox Coordinator in the Ogden IRS Submission Processing Center to determine the controls maintained over tax returns shipped from lockbox banks to the IRS centers, and the procedures followed by lockbox employees when taxpayers do not enter names, addresses, and taxpayer identification numbers in the appropriate places on their tax returns.

¹ Audit No. 200030034 – Use of Restricted Interest on Taxpayer Accounts.

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- V. Reviewed IRS instructions provided to lockbox banks for processing tax payments and related tax returns.
- VI. Reviewed seven business tax returns (one Employer's Quarterly Federal Tax Return [Form 941] and six Employer's Annual Federal Unemployment Tax Returns [Form 940-EZ]) received on one day in the Ogden IRS Submission Processing Center from the lockbox bank. The taxpayers left the name and address fields on each of these tax returns blank and the lockbox bank had not recorded them on the returns.
- VII. Discussed with IRS personnel the procedures followed for processing tax returns received from lockbox banks with no names, addresses, and taxpayer identification numbers shown on the tax returns.
- VIII. Telephoned the state tax agencies for the states listed on Line B of four of the six Forms 940-EZ referred to in step VI. (The other two Forms 940-EZ had no state information on Line B). We provided the agencies with the state reporting numbers listed on the returns and asked the agencies to provide us with the names and federal taxpayer identification numbers of the taxpayers.

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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner N:C

Deputy Commissioner, Small Business/Self-Employed Division S

Deputy Commissioner, Wage and Investment Division W

Director, Customer Account Services S:CAS

Director, Submission Processing W:CAS:SP

Director, Tax Forms and Publications W:CAR:MP:FP

Director, Legislative Affairs CL:LA

Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O

Office of Management Controls N:CFO:F:M

National Taxpayer Advocate TA

Chief Counsel CC

Audit Liaisons:


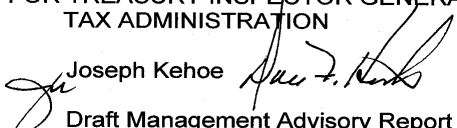
Director, Submission Processing, Small Business/Self-Employed Division S:CAS

Director, Tax Forms and Publications, Wage and Investment Division W:CAR:MP:FP

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Appendix IV

Management's Response to the Draft Report

 COMMISSIONER SMALL BUSINESS/SELF-EMPLOYED DIVISION	DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE WASHINGTON, D.C. 20224	<div style="border: 1px solid black; padding: 5px; display: inline-block;">RECEIVED JUN 08 2001</div>
JUN - 8 2001		
MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION		
FROM:	Joseph Kehoe 	
SUBJECT:	Draft Management Advisory Report – The Internal Revenue Service Could Reduce the Number of Business Tax Returns Destroyed Because of Missing Information	
<p>We appreciate the opportunity to respond to your draft report and recommendations as we are constantly looking for ways to improve our operations and programs.</p> <p>We agree with your findings that we could reduce the number of unprocessable business tax returns by clarifying instructions to taxpayers and providing additional processing instructions to lockbox banks. As your report suggested, we will revise the tax forms and instructions to ensure taxpayers understand that their names, addresses, and employer identification numbers are required on both their tax forms and payment vouchers. And, we will require lockbox banks to identify missing taxpayer information, copy payment vouchers, and send these to us with returns which are missing entity information. By doing this, it will eliminate the need for IRS employees to contact state agencies as cited in your Recommendation 3.</p> <p>Our comments on the specific recommendations in your report are as follows:</p> <p>RECOMMENDATION 1: Modify tax forms and instruction to ensure taxpayers understand that their names, addresses, and taxpayer identification numbers are required on both their tax forms and payment vouchers.</p> <p>ASSESSMENT OF CAUSE: Business returns are often prepared by filers who are not aware we separate the voucher and payment from the return before processing.</p> <p>CORRECTIVE ACTION:</p> <ol style="list-style-type: none">1. Add an instruction to the left of the entity area on the 2001 Forms 940 and 940-EZ to direct the taxpayer to complete the required information.2. Add an instruction above the entity section on the 2001 (4th quarter) Form 941 to direct the taxpayer to complete the required information.		

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3. Edit the instructions for the entity areas of the 2001 Forms 940 and 940EZ and the 2001 (4th quarter) Form 941 to remind filers of the requirement to enter their entity information on the return itself even if they have completed the payment voucher.

IMPLEMENTATION DATE:

Form 940 and Instructions: November 16, 2001
Form 940-EZ and Instructions: September 28, 2001
Form 941 and Instructions: October 10, 2001

RESPONSIBLE MANAGEMENT OFFICIALS:

Director, Tax Forms and Publications

CORRECTIVE ACTION MONITORING PLAN:

N/A

RECOMMENDATION 2:

Lockbox banks to identify when taxpayer identifying information is missing from tax returns and either enter the information from the payment voucher or copy the voucher and send it to the IRS with the tax return.

ASSESSMENT OF CAUSE:

Lockbox banks separate the voucher and payment from the return without reviewing the return for missing taxpayer identifying information.

CORRECTIVE ACTION:

We will coordinate with FMS to add procedures for the Lockbox banks to copy payment vouchers and send these to us with returns which are missing entity information.

PROPOSED IMPLEMENTATION DATE:

January 2002

RESPONSIBLE MANAGEMENT OFFICIALS:

Director, Submission Processing, W&I Division
Director, Customer Account Services, SB/SE

CORRECTIVE ACTION MONITORING PLAN:

N/A

RECOMMENDATION 3:

IRS employees should contact state tax agencies to obtain missing taxpayer identifying information.

**Management Advisory Report: The Internal Revenue Service
Could Reduce the Number of Business Tax Returns Destroyed
Because of Missing Information**

ASSESSMENT OF CAUSE:

Taxpayers are not using the preprinted forms when completing their Form 940/940EZ returns. If after research we cannot locate the taxpayer's entity information we destroy the return.

CORRECTIVE ACTIONS:

None. We will pursue Recommendation 2, thus eliminating the need for contacting state agencies.

IMPLEMENTATION DATE:

N/A

RESPONSIBLE OFFICIALS:

Director, Submission Processing, W&I Division
Director, Customer Account Services, SB/SE

CORRECTIVE ACTION MONITORING PLAN:

N/A

Please contact me at (202) 622-0600 if you have any questions.